

SOMALIA—CURRENCY REFORM ASSESSMENT LETTER FOR THE CENTRAL BANK OF SOMALIA

March 16, 2018¹

This letter provides IMF staff's assessment on the readiness of the Central Bank of Somalia (CBS) to issue a new national currency under Phase I which will be limited to exchanging the counterfeit Somali shilling notes currently in circulation with new currency. Over the past two years the IMF has provided the CBS with extensive technical assistance (TA) to support the currency reform project. All preparatory measures agreed on between the authorities and IMF staff have been implemented and IMF staff views that the CBS is ready to introduce the new national currency under Phase I. This assessment letter has been requested by the CBS with the objective to share it with donors to mobilize the needed funding for the currency reform project. It is estimated by IMF staff that this project under Phase I will cost about \$41 million.

Somalia is continuing to achieve important progress in rebuilding its economy, and its development partners are providing significant peacekeeping, institution building, and humanitarian support. Somalia is one of the largest beneficiaries of IMF TA, which is delivered through a multi-donor Trust Fund and closely coordinated with other partners. An important focus of the IMF TA has been on currency reform. Somalia's relationship with the IMF continues to improve: in June 2017 IMF Management completed the first 12-month staff-monitored program (SMP) with the country and approved a second 12-month SMP covering the period May 2017–April 2018.

The authorities have set currency reform as one of their highest priorities. It is an important component of the reform measures under the SMPs. It will be implemented in two phases. Phase I (see Table 1) involves the exchange of counterfeit Somali shilling notes currently in circulation with fiat Somali shilling banknotes. During this phase, the CBS will only issue new small-denominations (i.e., 1,000; 2,000; 5,000; and 10,000) of Somali shilling banknotes to replace the counterfeits currently in circulation. Beyond this, any injection of new Somali shilling banknotes, including larger denominations, will only take place during phase II. The latter will require significant preparatory work, including strengthening the CBS's institutional² capacity and developing independent monetary policy instruments and reserve management guidelines.

The introduction of the new banknotes will mark the first time that the CBS is issuing currency since 1991. It will help the authorities bring an end to the widespread counterfeiting

¹ For a detailed assessment of recent macroeconomic developments and prospects in Somalia please see the IMF staff report for the 2017 Article IV consultation and first review under the staff-monitored program (IMF Country Report No. /18/55).

² This will include improvement of governance at the CBS.

prevailing in the country. All the required legal and operational measures recommended by the IMF related to this project have been implemented (Table 1). Also, IMF staff has assisted the authorities in preparing the budget (Table 2) for the entire Phase I and will continue to provide the authorities with the needed TA and advice during the issuance and launch of the new currency. The authorities will need the support of the donor community to raise the needed funds, \$41 million, for this project. The budget will cover the entire operation of Phase I which includes all aspects of the issuance and distribution on the new currency.

Table 1. Somalia: Critical Actions Completed by the Central Bank of Somalia (CBS) Under the Phase I of the Currency Reform Roadmap

Benchmarks

Develop the anti-counterfeiting framework

which includes:

1. Finalize the anti-counterfeit strategy
2. Hire qualified staff and develop training plan on anti-counterfeiting
3. Legal framework, MoU on cooperation CBS and Somali Law enforcement agencies (Police Force, National Intelligence and Security Agency (NISA), and Attorney General's Office)
4. Start of CBS anti-counterfeit operations
5. CBS Regulation establishing National Anti- Counterfeit Center finalized and adopted
6. National Anti-Counterfeit Center set up
7. Regional leaders/Ministers of Finance have concluded an agreement to combat counterfeiting activities in their respective

Prepare an accounting and reporting modules

which includes:

1. Design special accounting and reporting system modules to form the key information management system for the entire

Management Function

which includes:

1. Task force of high level CBS staff to manage the command and control structure as the currency reform evolves

Scope of exchange / conversion

which includes:

1. Discussion with Minister of Finance on i) scope of exchange/ conversion rate, ii) denominations, iii) design features of
2. Preparation decision on i) scope of exchange/ conversion rate, ii) denominations, iii) design & security features, iv) volume of
3. Preparation of official communication on exchange / conversion (part of general communication strategy)

Storage, distribution, collection, invalidation, and destruction

which includes:

1. Dedicated Cash Department set up and staffed (by Jan 2017)
2. Develop a plan for distribution and storage requirements, and timelines finalized, including staff (re)allocation and basic
3. Operationalized the developed plan (see #2), staffed, and ready for operations
4. Preparation by CBS of the required minimum standards for Money Transfer Businesses (MTBs)' cash handling machines and their procedures for detecting counterfeits
5. CBS to prepare MoUs with Money Transfer Businesses (MTBs) signed confidentially
6. Business continuity (stress) testing conducted with CBS and MTBs

Legal framework

which includes:

1. CBS to recruit at least one lawyer specialized in financial law matters
2. Preparation of internal CBS currency operations manual
3. Preparation of CBS regulation on the denominations of the new banknotes, public security, design features, withdrawal policy, reproduction rules, and rules for the exchange of damaged/unfit banknotes
4. CBS regulation on the denominations of the new banknotes, public security, design features, withdrawal policy, reproduction rules, and rules for the exchange of damaged/unfit banknotes

Accountability Elements

which includes:

1. Strengthen the accountability aspects of the currency reform by setting up: (i) an independent evaluations task force (with two to three nonstaff); (ii) preparing for external independent financial auditing; and (iii) planning CBS reports to key Somali stakeholders

Table 2. Currency Reform Cost Summary of the Phase I
(US\$ million, unless otherwise indicated)

Budget items	Budgeted amount
Banknote Design and Plate Production	0.16
Collect and select symbols and icons	-
Arrange designers workshop in [add place]	-
Decide provisional design and select final design	-
Arrange ordination of banknotes and engraving	0.16
Banknote Procurement	27.65
1,000	13.13
2,000	7.00
5,000	4.38
10,000	3.15
Cost of Reserve Coverage	-
Currency Exchange Implementation	4.71
Manage the currency exchange	0.07
Run accounting and reporting systems	0.05
Provide information and public awareness	0.60
Arrange for telecommunications	0.02
Select and run exchange places and exchange points	0.05
Arrange for logistics	0.83
Additional personal cost for logistics	0.18
Provide storage	0.07
Money-transfer businesses (MTBs) engagement for distribution and collection incentives	2.81
Invalidate and destroy old banknotes	0.03
Accountability Aspects	0.30
Arrange for financial auditing	0.15
Report to the Presidency and Parliament	-
Evaluate independently the currency exchange	0.15
International Shipping/Transportation Cost	3.00
Arrange for Shipping/Transportation - International	3.00
Anti-Counterfeit Measures	0.06
Cash handling machines	0.06
Subtotal	35.88
<i>Contingency Reserve of 15 percent</i>	5.38
Grand total 1/	41.26
Memorandum items	
Total value of SoS to be exchanged (SoS billion)	1,750.00
<i>Of which:</i> reserve buffers	262.50
SOS/US\$, exchange rate	25,373.25
Total volume of new banknotes to be printed (million)	752.50

1/ This excludes the cost of reserve coverage of new banknotes.